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SUBJECT: Kenya's Developing Food Crisis

REFS: (A) FAS GAIN Report KE8023 (B) 08 Nairobi 2605 (C) 08 Nairobi  
2864 (D) FAS GAIN Report KE8024 (E) FAS GAIN Report KE8031 (F) 08  
Nairobi 2878

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Summary  
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1. (SBU) A shortfall of white maize (Kenya's staple food crop) has left an estimated 3.2 million Kenyans in need of emergency food assistance. Millions more - particularly in urban areas - are food insecure due to rising maize prices. The forces contributing to the shortfall include: reduced production due to the post-election violence, inadequate rainfall in much of the marginal agricultural areas, the Government of Kenya's (GoK) mismanagement of maize purchases and distribution, and restrictive (anti-GMO), protectionist agricultural trade policies. Insider deals and improper sales of maize from the Strategic Grain Reserve to private individuals with political connections have frustrated both Kenyans and donors. The conventional wisdom here is that Kenya will experience a 600,000 metric ton maize shortfall by the end of August 2009. The GoK has declared a national disaster and appealed for KSh 37 billion (about USD 480 million) to mitigate the shortages. In the short-term, both continuing international food aid and commercial imports of white maize (possibly through the use of U.S. Department of Agriculture GSM-102 credit guarantees) will be necessary to feed Kenyans and help stabilize prices. To prevent additional crisis in the mid-to-long term, Kenya will need to liberalize and diversify its market, reform its agricultural and trade policies, and develop its basic (e.g., road) infrastructure. We remain concerned that white maize flour shortages and continuing high prices, especially in urban areas, may spark unrest. End summary.

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The Problem  
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2. (SBU) A convergence of factors over the past year has intensified

food insecurity in Kenya, leaving an estimated 3.2 million people in need of emergency food assistance. This figure represents a more than 100 percent increase in the CY08 caseload of nearly 1.4 million Kenyans receiving emergency food assistance. Stakeholders point to three consecutive low-rainfall seasons; disruption of the planting cycle in many of the food growing areas due to the post-election violence; reduced use of fertilizer due to cost; high transport fuel prices; and insufficient rainfall during the recent short rains season in Kenya's North Rift Valley and Eastern Province as causes for an estimated deficit of 600,000 MT by August 2009. Note: This 600,000 MT estimate is consistent with calculations by the Embassy's Foreign Agricultural Service. End Note. In addition, the GoK's inefficient management of the production and distribution of grain has further complicated food availability.

13. (SBU) The Ministry of Agriculture has reported that the national maize output is 2.16 million MT, 20 percent lower than the short-term average. Analysis by the Kenya Food Security Network suggests that there will be no maize in the market from May until the onset of the harvest in the middle of July, and if long rains perform poorly, the actual deficit through August will be larger than originally projected.

14. (SBU) GoK efforts in late 2008 to mitigate the rising price of maize flour further aggravated the distribution of maize in the market. Market interventions such as price subsidies, export bans, and prohibition on direct sales from farmers to millers negatively affected normal market mechanisms. In an effort to encourage farmers to sell their maize to the National Cereals and Produce Board (NCPB), the GoK recently increased the farm-gate price of 90-kg bags of maize from 1950 KSh to 2300 KSh; however, farmers reportedly continue to withhold maize (1-2 million bags) in the hopes of higher prices. Additionally, the distribution of imported maize will likely face delays and bureaucratic challenges, especially in the Port of Mombasa, hindering the effective distribution of maize to the market. Note: U.S. Department of Agriculture is set to offer a GSM-102 credit guarantee program that would help Kenya import U.S. white corn. However, the GoK has failed, thus far, to provide a credit guarantee assurance and notice that it will accept U.S. white corn at 14.5 percent moisture content (13.5 maximum required currently). End Note.

15. (SBU) Shortages of maize flour on the market shelves coupled with high food and non-food prices have diminished Kenyans' ability to purchase maize flour. Also aggravating the problem, corruption of personnel in the NCPB and members of government has resulted in the misallocation of an estimated 140,000 90-kg bags from the country's Strategic Grain Reserve (SGR). The maize scandal has diminished the willingness of some donors to provide direct food assistance to the GoK. At a recent Embassy town hall meeting, Prime Minister Odinga raised the specter of food riots if maize prices were not contained. Note: The price of maize flour is currently 100 percent higher in many parts of Kenya compared to this time last year. End note.

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Short-Term Mitigation  
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16. (SBU) To help increase maize supplies, the GoK has temporarily lifted the fifty percent ad valorem import tariff for maize. In an effort to restore the credibility of the NCPB and allay fears of potential donors, GoK announced that a private international firm will be conducting a forensic audit of all financial transactions of the NCPB since July 1, 2008, and that the management of buying and selling grains by the NCPB will be outsourced to an international firm beginning September 2009. Moreover, in an effort to boost future production, the GoK has announced that it will supply low-income farmers with free fertilizer to relieve the cost of production.

17. (SBU) According to the Eastern Africa Grain Council, to address the current crisis the GOK will need to import maize from outside the region as there is currently a general shortage of maize in the region. To facilitate importation from the two potential suppliers of white maize, the United States and South Africa, the GoK needs to relax the maximum moisture content standards for U.S. white maize and the GMO adventitious presence for South African maize. The Biosafety Bill, recently passed by Parliament, but not yet signed by

President Kibaki, should allow importation of GMO maize once implementing regulations are in place.

¶8. (SBU) The World Food Program (WFP) is preparing to assist 3.2 million people with emergency food and nutrition assistance under the ongoing Emergency Operation Program (EMOP), up from 1.4 million last year. WFP may revise the level of assistance based on an on-going assessment. In addition, WFP will increase its school feeding program by 850,000 children (in addition to the current 750,000 million children under their country assistance program). To that end, WFP projects that it will need at least 226,000 MT of food to assist the most affected populations over the next six months (February through July). GoK's Ministry of State for Special Programmes is providing assistance to one million people who are food insecure in areas not covered by EMOP.

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Long-Term Solutions  
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¶9. (SBU) Long-term causes of Kenya's food insecurity include the inability of agricultural production to keep pace with population growth (2.9 percent), ongoing drought and inadequate economic opportunities in the county's arid and semi-arid lands, and poor infrastructure to facilitate distribution of food to the market. Reforms to increase the supply of maize in the country and to address the long-term challenges of the chronically food insecure populations include, but are not limited to:

-- Modification of agricultural policy to facilitate the production of diversified crops (drought-resistant, short-cycle) and to mitigate chronic water shortages in part through irrigation;

-- Restructuring of the strategic grain reserve and famine mitigation mechanisms through the NCPB;

-- Modification of the means by which the GOK transmits market signals to producers will be necessary to encourage additional production. In addition, the purchase, payment and distribution mechanisms, currently administered through the NCPB, must be modified;

-- Market liberalization, including the permanent elimination of the 50 percent ad-valorem import tariff, the modification/reversal of market-based interventions such as price controls, restrictions on farmers' ability to market crops to private traders, and the elimination of white maize export bans.

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Comment  
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¶10. (SBU) The GoK appears to have taken some positive steps to address the current foo shortage. Corruption within the maize distribution system has further eroded the credibility of GoK and confidence in the reform agenda, contributing to a sense of unease. Food insecurity will continue to undermine Kenya's economic and social progress until short, medium and long-term solutions are embraced. We remain concerned, however, that continuing high maize prices, especially in urban areas, may spark unrest. End comment.

RANNEBERGER